



Shire of
Serpentine
Jarrahdale



Special Audit, Risk and Governance Committee Meeting

Unconfirmed Minutes

Tuesday, 28 January 2025

6:00pm

Purpose: To consider the following reports and make recommendations to Council:

- Annual Financial Statements and Audit Report 2023 - 2024
- CONFIDENTIAL - Information Communication Technology General Controls - Australian Cyber Security Centre (ACSC) Essential Eight Implementation



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Minutes of the Special Audit, Risk and Governance Committee Meeting held in the Council Chambers, Civic Centre, 6 Paterson Street, Mundijong, on Tuesday, 28 January 2025.

The Presiding Member, Councillor Mack declared the meeting open at 6.03pm and welcomed Committee Members and Staff.

Councillor Mack acknowledged the Noongar people of the Boodja – the land – that we gather on today. For thousands of years their connection to Country has provided knowledge, guidance, spirituality, and life. We pay our respects to this ongoing connection, as well as to their Elders past, present and emerging.

Presiding Member, Councillor Mack advised that the meeting is being live streamed and audio recorded. No other visual or audio recording of this meeting by any other means is allowed.

Minutes

1. Attendances and apologies (including leave of absence):

Elected Members: S Mack.....Presiding Member
 R Coales
 C Mazzini
 T Duggin
 R Jerrett

External Members: Ms E Newby

Officers: Mr P Martin.....Chief Executive Officer
 Mr N Scidone.....Acting Director Infrastructure Services
 Mr B Oliver.....Director Community Engagement
 Mr F Sullivan.....Director Corporate Services
 Mr A TrosicDirector Development Services
 Mr F Jamodien.....Executive Manager of Operations
 Ms C Mortimer.....Manager Corporate Performance
 Mr Jake Wells....Manager Information Communication Technology
 Ms J Bavaro.....PA to Director Corporate Services (Minute Taker)

Apologies: Mr J Curulli
 Mr M Byas
 Mr N Bishop

Observers: 2



2. Public Questions:

Nil.

3. Deputations:

Nil.

4. Declaration of Committee Members and Officers interest:

Nil.

5. Receipt of minutes or reports and consideration of adoption of recommendations from Committee meetings held since the previous Council meetings:

Nil.

Unconfirmed



6. Reports for consideration:

6.1 – Annual Financial Statements and Audit Report 2023 - 2024	
Responsible Officer:	Manager Finance
Senior Officer:	Director Corporate Services
Disclosure of Officer's Interest:	No Officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

Authority / Discretion

Legislative	Includes adopting local laws, local planning schemes and policies.
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Report Purpose

The purpose of this report is to present the audited Annual Financial Report (**attachment 1**), Independent Unqualified Audit Report (**attachment 2**), Final Audit Management Report (**attachment 3**) and Interim Audit Management Report (**attachment 4**) for the period ended 30 June 2024. The Shire of Serpentine Jarrahdale's (the Shire) Auditor and The Office of the Auditor General has provided the Independent Audit Report and Audit Management Report for the financial year ended 30 June 2024.

Relevant Previous Decisions of Council

There are no previous Council decisions relating to this matter.

Background

In accordance with the *Local Government Act 1995*, the Shire is required to have the Auditor General audit the accounts and annual financial report at least one each financial year,

Community / Stakeholder Consultation

Not applicable

Statutory Environment

In 2017, amendments to the *Local Government Act 1995* (the Act) introduced a requirement for the Auditor General to audit local governments.

Part 7, Division 3A of the Act requires the Auditor General to conduct a financial audit and report on the financial audit before giving a copy of the President, Chief Executive Officer and Minister for Local Government.



The *Local Government (Audit) Regulations 1996* provide for the roles and functions of the Audit, Risk and Governance Committee which includes:

- Guiding and assisting the Shire in carrying out local government functions in relation to audits, and
- Oversee the implementation of any action the local government is required to take in addressing any matters identified as significant by the audit in the audit report.

Comment

Interim Audit Management Report

In their Interim Audit Management Report for the financial year ended 30 June 2024 (**attachment 4**), the Office of the Auditor General identified the following matters:

INDEX OF FINDINGS	Potential impact on audit opinion	RATING			Prior year finding
		Significant	Moderate	Minor	
1. Credit card exceptions	No		✓		
2. Business Continuity and Disaster Recovery Plan	No		✓		
3. Non-compliance – monthly financial activity statement reports	No		✓		
4. IT Security Training	No			✓	
5. Outdated policies and / or procedures	No			✓	
6. Daily banking exceptions	No			✓	

KEY TO RATINGS

Significant - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating could indicate the need for a modified audit opinion in the current year, or in a subsequent reporting period if not addressed. However, even if the issue is not likely to impact the audit report, it should be addressed promptly.

Moderate - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.

Minor - Those findings that are not of primary concern but still warrant action being taken.



1. Credit card exceptions

Audit Finding

Our audit procedures identified the following exceptions in relation to credit card transactions approval:

- The July 2023 credit card statement was not signed as evidence of authorization by the CEO in accordance with the Shire's Council Policy 3.2.6 – Corporate Purchasing Cards. We acknowledge this review has been subsequently completed in April 2024.
- During one month selected for testing, the credit card statement was signed by the acting Director of Corporate Services rather than the card holder as stated in the Shire's Council Policy 3.2.6 – Corporate Purchasing Cards.

Management Comment and Action

It should be noted that all the credit card transactions are pre-approved in advance by the line manager and Director Corporate Services then reported to Council monthly.

This issue essentially occurred because the personal assistant to the Director Corporate Services had resigned. To rectify this, Officers have added an additional task under End of Month checklist to ensure to check that the credit card statement is signed in a timely manner, further the function has been moved to procurement which has backup personnel.

Officers are working on updating policy where "Acting" Director Corporate Service can sign on behalf of the cardholder.

2. Business Continuity and Disaster Recovery Plan

Audit Finding

The current Shire Business Continuity and Disaster Recovery Plan states:

"The Chief Executive Officer has overall responsibility for the annual review of the Business Continuity Plan in conjunction with the Manager of Governance. As part of the review process, the Shire shall exercise and test the business continuity plan every three years."

The Business Continuity and Disaster Recovery Plan was last revised on the 5 May 2021 and therefore is potentially out of date and requires review.

Furthermore, the Business Continuity and Disaster Recovery Plan was last tested in 2020.

Management Comment and Action

Officers acknowledge that the Business Continuity Plan requires an annual review and accept the Auditors recommendation to update the plan. The proposed due date for this review is 30 June 2025.

Officers also acknowledge that the Business Continuity Plan requires a test every three years and note that the plan was activated in October 2023 (OCM268/10/23) to manage the Watkins Road Waste Transfer Station Closure. The evaluation and feedback from this incident will be used to inform the aforementioned review. Following this, Officers will implement a tracking mechanism via Service Team Planning to ensure both the annual review and three yearly test occurs on time in the future.



3. Non-compliance – monthly financial activity statement reports

Audit Finding

Our review of the monthly financial activity statement reports presented to Council identified that the monthly financial activity statement report for the month of November 2023 was presented to Council at the February 2024 council meeting. It is a requirement of regulation 34 of the *Local Government (Financial Management) Regulations 1996* that the monthly financial activity statement report is presented to council within two months.

Management Comment and Action

Officers acknowledge that the monthly financial reports presented for November was presented to Council at February 2024 Council meeting. This is due to recent amendments in Local Government (Financial Management) Regulations 1996 regulation. To rectify this, officers will present the November monthly report at December council meeting.

4. IT security training

Audit Finding

During our testing of the Shire's IT procedures, we noted that the Shire does not provide regular cyber security related training to new staff on induction.

Management Comment and Action

The Shire takes Cyber Security very seriously. The initial cyber security training and phishing simulation suite KnowB4 was implemented in March 2023, all staff were enrolled in mandatory cyber security training in June 2023. Each month since March 2023 there have been phishing simulations performed. Any staff member who clicks on a link in a phishing email is enrolled in mandatory cyber security training where they are required to watch a video and answer a quiz. The Shire has also scheduled mandatory cyber security training in October 2024 for all staff to align with cyber security awareness month.

Furthermore, the Shire launched our 12-month cyber security campaign in February 2024 where information is posted on our official communication portal, and we also have a competition with directorates. The directorate with the least clicks for the quarter wins a breakfast hamper. During the Shire's May 2024 phishing campaign 240 staff were delivered a phishing email. 133 (55.4%) were opened, ten (4.2%) were clicked and 92 (38.3%) were reported to the ICT team. The officers who have opened or clicked on the link have gone through a mandatory ICT security training.

As of August 2024, the Shire has implemented cyber security training for all new employees during induction.



5. Outdated policies and/or procedures

Audit Finding

Our review of selected Shire policies and procedures identified the following policies and procedures have not been reviewed recently and are potentially out of date:

Policy / Procedure	Comment
Council Policy 3.2.6 – Corporate Purchasing Cards	Last modified 18 December 2017 Policy does not state the next review date
Council Policy 3.2.3 – Investments	Last modified 23 April 2018 Policy does not state the next review date
Business Operating Policy 3.2.4 – Small Vehicle Fleet – Conditions of Use	Last modified 18 December 2017 Policy does not state the next review date

Management Comment and Action

Officers have previously identified that policies at the Shire are outdated and require review. In June 2022, a comprehensive report was provided to Council to address this matter which included the adoption of a 'policy review schedule' (OCM146/06/22). At the time, it was identified that within existing resources, the review schedule was estimated to take six years to complete 94 policies. In the period from schedule adoption (June 2022) to 30 June 2024, 42 policies were scheduled to be reviewed. Of these:

- 12 have been completed
- 16 are in progress, and
- 4 are not started.

In addition to the above, the following Policy review work has also occurred/is underway:

- 4 policies have completed
- 2 new policies have been created, and
- 7 are in the process being reviewed.

In summary, the schedule planned to review 42 policies from June 2022 to June 2024 however, taking into account the additional work outside of the schedule, only 15 (36%) was achieved.

Officers acknowledge that the schedule has fallen behind, and therefore recommend the schedule be represented to Council with options such as a dedicated resource to expediate the review of policies by 31 December 2024.



6. Daily banking exceptions

Audit Finding

Our sample testing of 17 daily banking reconciliations identified one instance where the daily banking reconciliation was not signed by the preparer nor was it signed as evidence of independent review.

Management Comment and Action

The Shire acknowledges that during one instance daily banking reconciliation was not signed by the preparer. The current process is that the staff member who is working on the counter prepares banking documents and submits it to another team member for review.

Moving forward, the Team Leader of Customer Service will also review and check whether the daily banking sheet has been signed by two Officers or not. This will add an extra security and reduce the risk of errors and omission relating to cash remaining undetected.

Final Audit Management Report

In their Final Audit Management Report for the financial year ended 30 June 2024 (**attachment 3**), the Office of the Auditor General identified the following matters:

Index of findings	Potential impact on audit opinion	RATING			Prior year finding
		Significant	Moderate	Minor	
1. Contributed Assets Recognition	No	✓			

1. Contributed Assets Recognition

Audit Finding

This year the Shire found and recognised significant amounts of previously contributed developer assets. Given the growth corridor the Shire finds itself in, this is a risk the Shire needs to appropriately manage going forward to ensure completeness and accuracy of assets reported in the financial report.

Management Comment and Action

The Shire covers 905 km² and has a population exceeding 37,000 residents and is one of the fastest growing local governments in Western Australia. It currently has over 69,000 infrastructure assets recorded in the Shire’s Enterprise Resource Planning system (ERP) which was commissioned in 2021. Prior to this, data was recorded in numerous documents in the organisation and there was no central point of truth.

Over the last three years significant improvements in procedures and practices have been implemented to receive and validate data for entry into the ERP, consolidation of asset formats and systems based on internal data requirements, surveys to update condition data and identify missing assets, and the recognition of data which had not been captured previously.

An education process has been implemented with key stakeholders to ensure that data relating to contributed assets is supplied in a timely manner especially in relation to end of year reporting.



This has been automated by creating workflows through the Shire's ERP for the subdivision process to ensure data transfer and verification prior to practical completion milestones.

Furthermore, following an internal audit in 2023 the Shire has acted upon the recommendations contained within this audit including:

- Creation of a Terms of Reference for the Asset Management Working Group
- Determination of Roles and Responsibilities within the Shire for asset management processes.
- Review and adoption by Council of the Asset Management Policy and Strategy
- Restructuring of the Asset Management team to include an Asset Management Coordinator and an Asset Technical Officer to improve data management within the ERP and GIS systems.

Summary of Overall Financial Performance 2023-2024

The year ended 30 June 2024 has seen the Shire continue to deal with the impacts of being a fast-growing local government. This is reflected in the Financial Health Indicator (FHI) and ratio information presented below.

Description	Benchmark	2024	2023	2022	2021	2020
Current Ratio	1.00	1.41	1.55	1.80	2.72	1.45
Asset Consumption Ratio	0.50	0.63	0.65	0.75	0.75	0.73
Asset Renewal Funding Ratio	0.75	1.27	1.04	0.71	1.02	0.93
Asset Sustainability Ratio	0.90	0.90	0.90	0.95	0.55	0.85
Debt Service Cover Ratio	2.00	10.52	6.04	6.21	5.92	10.61
Operating Surplus Ratio	0.01	(0.15)	(0.09)	(0.12)	(0.11)	(0.05)
Own Source Revenue Coverage Ratio	0.40	0.80	0.82	0.80	0.82	0.85
Financial Health Indicator Score	70	72	74	73	69	72

The Shire's Financial Health Indicator (FHI) for the year ended 30 June 2024 is 72. This is primarily due to:

- **Current Ratio:** This ratio provides information on the Shire's ability to meet its short-term financial obligations using unrestricted assets. The Shire's score exceeds the benchmark.
- **Asset Consumption Ratio:** This ratio measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost. The Shire's score exceeds the benchmark.
- **Asset Renewal Funding Ratio:** This ratio measures the Shire's ability to fund its projected asset renewals and replacements in the future. The Shire's score exceeds the benchmark.



- **Asset Sustainability Ratio:** This ratio indicates whether the Shire is replacing or renewing its existing non-financial assets at a pace consistent with the rate at which its overall asset stock is depreciating. The Shire's score meets the benchmark.
- **Debt Service Cover Ratio:** This improvement is due to the conclusion of the Council Chamber Loan in 2023 and the timing of the Briggs Park Loan repayment which reflects the Shire's sufficient operating surplus to cover repayments during the period. The Shire's score exceeds the benchmark.
- **Operating Surplus Ratio:** A decline occurred due to increased operating expenses, driven primarily by higher employment costs and most significantly depreciation. It is worthy of noting that the Shire continues to meet financial sustainability benchmark due to its ongoing success at leveraging its rates income to achieve a high level of grant income to fund its large asset base.
- **Own Source Revenue Coverage Ratio:** A slight decline due to higher operating expenses resulting from increased employment costs and depreciation but continues to exceed the benchmark.

The Shire's financial health remains stable despite ongoing economic pressures through sound financial management and external grant funding received for asset renewal. The Shire has prioritised a balanced approach to managing operational cost pressures while continuing to invest in asset renewal. Reflected in the asset ratios, the Shire will continue to focus on asset renewal aimed at maintaining and upgrading aging infrastructure to meet community needs whilst also managing operational cost pressures.

Options

Option 1

That the Audit, Risk and Governance Committee recommends Council:

1. RECEIVES the 2023/24 Annual Financial Report as per **attachment 1**.
2. RECEIVES the Office of the Auditor General Independent Unqualified Audit Report as per **attachment 2**.
3. RECEIVES the Office of the Auditor General Final Audit Management Report as per **attachment 3**.
4. RECEIVES the Office of the Auditor General Interim Audit Management Report as per **attachment 4**.
5. AUTHORISES the Chief Executive Office to write to the Minister for Local Government addressing the action the local government has taken in respect to the matter identified as significant by the Auditor as described in this report in accordance with *Section 7.12A of the Local Government Act 1995*.



Option 2

That the Audit, Risk and Governance Committee recommends Council:

1. DOES NOT RECEIVE the 2023/24 Annual Financial Report as per **attachment 1**.
2. DOES NOT RECEIVE the Office of the Auditor General Independent Unqualified Audit Report as per **attachment 2**.
3. DOES NOT RECEIVE the Office of the Auditor General Final Audit Management Report as per **attachment 3**.
4. DOES NOT RECEIVE the Office of the Auditor General Interim Audit Management Report as per **attachment 4**.
5. DOES NOT AUTHORISE the Chief Executive Office to write to the Minister for Local Government addressing the action the local government has taken in respect to the matters identified as significant by the Auditor as described in this report in accordance with *Section 7.12A of the Local Government Act 1995*.

Option 1 is recommended.

Conclusion

The 2023/24 Audit Report demonstrates the overall sound finance and governance controls that exist within the Shire. Officers believe that the Audit findings provide a strong basis for continual improvement and quality assurance.

Attachments (available under separate cover)

- **6.1.1 - attachment 1** – Annual Financial Report – 30 June 2024 (IN24/30315)
- **6.1.2 - attachment 2** – Independent Unqualified Audit Report – 30 June 2024 (IN24/30317)
- **6.1.3 - attachment 3** – Final Audit Management Report – 30 June 2024 (IN24/30320)
- **6.1.4 - attachment 4** – Interim Audit Management Report – 30 June 2024 (IN24/30772)

Alignment with our Council Plan 2023-2033

Thriving
1. Plan for the sustainable growth of the Shire of Serpentine Jarrahdale
2. Advocate and attract businesses to grow and thrive, increasing opportunities for local employment
3. Ensure sustainable and optimal use of Shire resources and finances
Liveable
1. Improve maintenance and investment in roads and paths
2. Invest in facilities and amenities to meet current and future needs
Connected
1. Invest in community recreation and support local clubs and groups to increase opportunities for participation



Financial Implications

Budget provision has been included in the 2024/25 budget to accommodate the expenses associated with carrying out the external audit.

Risk Implications

Risk has been assessed on the Officer Options and Implications:

Officer Option	Risk Description	Controls	Principal Consequence Category	Risk Assessment			Risk Mitigation Strategies (to further lower the risk rating if required)
				Likelihood	Consequence	Risk Rating	
1	There is no significant risk with the Audit, Risk and Governance Committee receiving the 2023/24 Annual Financial Report.						
2	That the Audit, Risk and Governance Committee does not receive the 2023/2024 Annual Financial Report leading the Shire to not comply with Section 7.2 of the <i>Local Government Act 1995</i> .	Provision of sufficient information and records to support the recommendation	Financial	Unlikely	Insignificant	LOW	Accept Officer Recommendation



Voting Requirements: Simple Majority

ARG01/01/25

AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION / Officer Recommendation

Moved Ms Newby, seconded President Coales

That the Audit, Risk and Governance Committee recommends Council:

- 1. RECEIVES the 2023/24 Annual Financial Report as per attachment 1.**
- 2. RECEIVES the Office of the Auditor General Independent Unqualified Audit Report as per attachment 2.**
- 3. RECEIVES the Office of the Auditor General Final Audit Management Report as per attachment 3.**
- 4. RECEIVES the Office of the Auditor General Interim Audit Management Report as per attachment 4.**
- 5. AUTHORISES the Chief Executive Office to write to the Minister for Local Government addressing the action the local government has taken in respect to the matter identified as significant by the Auditor as described in this report in accordance with Section 7.12A of the Local Government Act 1995.**

CARRIED UNANIMOUSLY 6/0

Please note that the Audit, Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit, Risk and Governance Committee are presented to Council for ratification.

ARG02/01/25

AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION

Moved Cr Jerrett, seconded Cr Mazzini

That the meeting be closed to members of the public while item 6.2 is discussed pursuant to section 5.23(2)(f)(ii) of the Local Government Act 1995.

CARRIED UNANIMOUSLY 6/0

At 6.11pm, the meeting went behind closed doors.

Officers assisting the meeting stopped the recording of the meeting.

**6.2 – CONFIDENTIAL – Information Communication Technology General Controls - Australian Cyber Security Centre (ACSC) Essential Eight Implementation (SJ2895)**

Responsible Officer:	Manager ICT
Senior Officer:	Director Corporate Services
Disclosure of Officer's Interest:	No Officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

Confidentiality Provisions

This report is confidential in accordance with Section 5.23(2)(f)(ii) of the *Local Government Act 1995*, which permits the meeting to be closed to the public for business relating to the following:

- (f) a matter that if disclosed, could be reasonably expected to —
 - (ii) endanger the security of the local government's property;

Voting Requirements: Simple Majority

ARG03/01/25

**AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION / Officer Recommendation
Moved Cr Jerrett, seconded Cr Mazzini**

That the Audit, Risk and Governance Committee **RECOMMENDS** that Council:

1. **NOTES** the update regarding the implementation of the Australian Cyber Security Centre (ACSC) essential eight maturity level one.
2. **REQUESTS** the Chief Executive Officer schedule an independent internal audit within the 2025/2026 Internal Audit Program to review the Shire's compliance to the Australian Cyber Security Centre (ACSC) essential eight maturity level one.

CARRIED UNANIMOUSLY 6/0

Please note that the Audit, Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit, Risk and Governance Committee are presented to Council for ratification.



ARG04/01/25

AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION

Moved Cr Jerrett, seconded Cr Duggin

That the meeting be reopened to members of the public.

CARRIED UNANIMOUSLY 6/0

At 6.21pm, the doors were reopened to members of the public.

Officers assisting the meeting resumed the recording of the meeting.

Presiding Member, Councillor Mack advised the public gallery of the Council Resolutions for item 6.2.

7. Motions of which notice has been given:

Nil.

8. Urgent business:

Nil.

9. Closure:

There being no further business, the Presiding Member declared the meeting closed at 6.21pm.

Officers assisting the meeting stopped the recording of the meeting.

I certify that these minutes were confirmed at the Audit, Risk and Governance Committee Meeting held on _____.

.....Presiding Member – Councillor Mack

.....Date